

# **VERMONT MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM**

Meeting of the Board of Trustees

November 21, 2003

## **Board members present:**

STEVEN JEFFREY, Chairperson, Employee Representative (term expiring July 1, 2004)

DAVID LEWIS, Employer Representative (term expiring July 1, 2006)

W. JOHN MITCHELL, II, Vice-Chairperson, Employee Representative (term expiring July 1, 2005)

MARIE DUQUETTE, Governor's delegate

Elizabeth Pearce, Deputy Treasurer representing JEB SPAULDING, Vermont State Treasurer

## **Also attending:**

Cynthia Webster, Director of Retirement Operations

David Minot, Director of Investment Services

Dick Charlton, Kevin Kondry, Doug Moseley, NEPC

Michael McShane, Assistant Attorney General

Bill Norton, Treasurer's Office Internal Auditor

Bob Webber, Chairman GMEDC

The Chairperson, Steve Jeffrey, called the meeting to order at 9:36 a.m. on Friday, November 21, 2003, in the Ethan Allen Room at the VT State House, Montpelier, Vermont.

## **ITEM 1:      Approval of the minutes of August 22, 2003 and October 29, 2003**

The Board acknowledged receipt of a copy of the February 19, 2003 minutes. No action was required as a quorum was not present at that joint meeting.

**On a motion by Ms. Duquette seconded by Mr. Lewis, the Board voted to approve the minutes of August 22, 2003. Motion carried, Ms. Pearce abstained.**

**On a motion by Mr. Lewis seconded by Ms. Duquette, the Board voted to approve the minutes of October 29, 2003 joint meeting. Motion carried, Ms. Pearce abstained.**

Mr. Mitchell arrived at the meeting.

## **ITEM 2:      Treasurer's Report**

### **A.      Retirement Office**

Ms. Pearce advised the Board that the Retirement Office is now fully staffed and a department wide reclassification project was submitted to the Department of Personnel. The objective is to be sure that jobs are defined, and staff are properly recognized and compensated for their service. Additionally some reorganization is planned for the Retirement Office. In addition to bringing Ms. Holden back as Board Coordinator, the Retirement Operations Chief position has been reclassified to a Retirement Specialist position to be dedicated approximately ½ time to the Municipal Plan. This was done in order to provide additional resources at the customer level. The intent is to maximize customer service and meet the needs of the membership across the three systems.

A new position, Deputy Director, has also been requested with the plan that the Deputy Director would be responsible for day-to-day supervision of operations staff and serve in the reporting, financial management, and information technology side of operations. Ms. Webster will supervise the Deputy Director as well as the Retirement Specialists, providing additional resources for customer service, outreach, education, and staff development.

In addition to the organizational changes planned, the Treasurer's Office is proceeding with the management consultant RFP. Twelve RFP responses were received; 9 out-of-state and 3 in-state, which were narrowed to four candidates. The Treasurer's Office anticipates final selection shortly. The intent of this project is to complete an intense analysis and comprehensive review of the Retirement Office operations and workflow. The project is expected to be completed by early spring with the recommendations and/or results to be used in the information technology (IT) project.

**On a motion by Mr. Lewis seconded by Mr. Mitchell, the Board unanimously voted to authorize the Treasurer to proceed with the RFP selection and enter into a contract for the Retirement Office management consultant services at an expense not to exceed \$76,460 with the cost to be proportionately divided amount the three retirement systems, SDIA and defined contribution plans.**

Interested members were invited to the Treasurer's Office to review the RFP responses.

B. Proxy Voting RFP

Ms. Pearce advised the Board of the Proxy Voting RFP results. Two firms responded, which were reviewed with the assistance of the VSERS and VSTRS Board Chairs. The Deputy Treasurer explained that the other Boards have voted to move forward with development of a policy and authorized the Treasurer to pursue contract negotiation with one of the firms, Institutional Shareholder Services (ISS). She explained that the contract cost would be split with the other participating systems and the Treasurer's Office – Common Investment Trust. Ms. Pearce asked the Board to consider whether they were interested in participating in the Proxy Voting policy development and contract.

**Mr. Lewis made a motion not to participate in the proxy voting management contract. Motion failed due to a lack of a second to the motion.**

**On a motion by Mr. Mitchell seconded by Ms. Duquette, the Board voted to request staff to bring back final contract information regarding the proxy voting management services, including the services expected and potential cost to VMERS. Motion carried, Mr. Lewis voted no.**

Ms. Pearce reassured Mr. Lewis that it is clear that the Board's action to request information in no way commits the Board to contract participation or charges for the proxy voting management service.

The Board discussed the potential for unitization and the proxy voting management services under that structure. Ms. Pearce explained that a sub-committee, in cooperation with members of the other participating Boards, would design and develop the proxy voting policy for their Board's approval. There would be advantages and cost considerations to having a uniform policy.

**ITEM 3: Investment Consultant Report for Q3/03**

Mr. Charlton, Mr. Kondry and Mr. Moseley reviewed the third quarter 2003 performance. They reported the market value of the fund balance at approximately \$192.1 million and a quarterly return of 3.3%, an out performance of the 2.7% median public fund. The one-year return was 16.6%, three-year return 1.2% and a five-year return of 5.6%.

NEPC will keep the Board informed of developments in the mutual fund trading investigations.

The Board discussed and reviewed the asset allocation history prepared by NEPC. They all agreed the Investment Objectives and Guidelines must reflect the Board's current voted and approved asset allocation. NEPC may include an appendix of any "long term" targets and NEPC may continue to bring the topic before the Board for discussion and consideration.

Ms. Pearce and Mr. Jeffrey will verify that the interim target (2) is the approved asset allocation according to the minutes. The information will be forwarded to NEPC to verify against the Investment Objectives and Guidelines. Both the asset allocation and Investment Guidelines will be brought before the Board for ratification.

Mr. Lewis requested that if amendments to the Investment Guidelines are needed they be presented as a list with page numbers referenced, rather than NEPC amending and distributing the entire document for discussion and approval.

**ITEM 4: Discuss/Act on Methods to Verify VMERS Wages Reported**

Mr. McShane joined the meeting.

**At 11:20 a.m., on a motion by Mr. Mitchell seconded by Mr. Lewis, the Board unanimously voted to enter into executive session pursuant to Title 1 § 313 to obtain legal counsel.**

**At 11:30 a.m. the Board moved out of executive session.**

**ITEM 5: Green Mountain Economic Development Corp. request for admission into VMERS**

Mr. Bob Webber, Chairman of GMEDC appeared before the Board. He explained that the GMEDC was founded in 1982 and is a 501 (c)(6) entity.

The Board requested Mr. McShane render an opinion regarding the definition of "instrumentalities" as cited in 24 VSA § 5051(14), and examine the conditions of membership of other Economic Development entities in the plan.

The Board advised Mr. Webber they would discuss the item again once the opinion from the AG's Office was received, which would likely be at a business meeting in December.

**ITEM 2:**      Treasurer's Report (**continued**)

Ms. Pearce and Mr. Norton reviewed and discussed the FY'03 financial statement with the Board. Ms. Pearce explained that the statement is printed in the Comprehensive Annual Financial Report (CAFR) and is being presented to the Board as background, prior to the presentation of specific FY'05 budget information at a meeting in December.

The Board was informed that the current 12% assessment allocation for shared expenses would remain the same for the coming FY. Ms. Pearce discussed the new computer system and IT RFP project included in the FY'05 budget. A draft of the FY'05 budget will be distributed to the Board and discussed at the next business meeting.

**ITEM 6:**      **Discuss/Act on Proposed Legislative Housekeeping Bill**

Mr. Jeffrey presented recommendations for proposed language changes to 24 VSA § 5062 as related to the election of Board members.

The Board requested the AG's Office review the proposed language changes.

**On a motion by Mr. Lewis seconded by Mr. Mitchell, the Board unanimously voted to present the language change as part of a housekeeping bill.**

The Board discussed proposed language for the definition of "separation from service". Ms. Webster will draft "90-day" proposed language for the Board's review.

**ITEM 7:**      **Discuss/Act on approval of 1/1/2004 membership for the following entities:**

- A.      Town of Thetford and Town of Walden, Group A  
         Brattleboro PD, Group D

**On a motion by Mr. Mitchell seconded by Ms. Duquette, the Board unanimously voted to approve the January 1, 2004 Group A membership for the Town of Thetford and the Town of Walden and the January 1, 2004 Group D membership for the Brattleboro PD.**

**ITEM 8:**      **Any other business to be brought before the Board**

**The Board agreed to hold a business meeting on December 30, 2003 at 9:00 a.m.**

**On a motion by Mr. Mitchell seconded by Mr. Lewis, it was unanimously voted to adjourn at 1:45 p.m.**

Respectfully submitted,

Cynthia Webster, Secretary to the Board

## GOALS

The Board established the following list of goals to be addressed in the future:

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## TO DO's

Who	What	When	Done
<b>** = for possible 2004 legislative changes</b>			
CLW/All	Adopt final policy re: joining entities w/prior service liabilities (7/11#3)	ASAP	
CLW	<del>Prepare legislative language for VSA 24 §5062 to Clarify definition (7/11 #5)</del>	11/21/03**	Done 11/21
CLW	Send letter to Fidelity re: info provided to potential DC members (7/11 #6)	ASAP	
D Minot	Question letter from NEPC (7/11 #8)	ASAP	
<del>D Minot</del>	<del>Investigate 5/23/03 asset allocation table consistency (7/11 #8)</del>	<del>ASAP</del>	Done 11/21
D Minot	Other state: municipalities (8/22 #2)	10/29/03	
D Minot	List (annually) of all alternative investments (8/22 #3)	11/21/03	
CLW/D Minot	AG opinion re expanding manager mandate (8/22 #3)	11/21/03	
NEPC	Global bonds, high yield, hedge funds education (8/22 #4)	11/21/03	
D Minot	Status of Fidelity Contract (8/22 #6)	11/21/03	
CLW	<del>Develop methods &amp; recommendations for verifying wages &amp; OT (10/29 #1)</del>	11/21/03	Done 11/21
All	Examine new funding methods w/actuary (10/29 #2)	ASAP	
Beth/Jeb	Bring final proxy voting contract info to Board (11/21 #2)	ASAP	
NEPC	Asset Allocation & Policy Guideline ratification (11/21 #3)	ASAP	
SJ & Beth	Verify asset allocation history (11/21 #3)	ASAP	
CLW	Legal opinion: "instrumentality" definition (11/21 #5)	12/30/03	
CLW	Legal opinion: "§5062 language change (11/21 #6)	12/3/03	
CLW	Draft "separation of service" language (11/21 #6)	12/3/03	